DoThink 德信服务
股份代号: 2215.HK

Dexin Services Group Limited
德 信 服 务 集 团 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2215)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO (1) DISCLOSEABLE TRANSACTION — LOAN TRANSACTION AND (2) CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

Reference is made to the announcement of Dexin Services Group Limited (the "**Company**") dated 16 December 2022 (the "**Announcement**") in relation to the (1) discloseable transaction — loan transaction and (2) change in use of proceeds from the Global Offering. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as defined in the Announcement.

The Board would like to provide the shareholders of the Company and potential investors with the following additional information regarding the Loan and the change in use of IPO proceeds.

CHANGE IN USE OF PROCEEDS FROM THE GLOBAL OFFERING

As stated in the Announcement, the Lender will use the Company's unutilised Net Proceeds from 2021 to provide the Loan to the Borrower (the "**Reallocation**").

Basis of determination of the amount of the IPO proceeds

In determining the monetary amounts to be applied to its Expansion Plan at the time of the Company's listing, the Board had considered the following factors holistically:

(i) performed internal evaluation on the feasibility and assessed the benefits of strategic acquisitions and investments for the Group as a whole;

(ii) obtained and analysed information from comparable companies listed on the Main Board in relation to the amount of IPO proceeds being allocated for strategic acquisitions and investments for the Group;

(iii) obtained and analysed market and industry information from the industry consultant for the Company's listing regarding other property management companies that had geographical influence and similar market positioning to diversify its strategies and maximise the potential synergies with the Group's existing business operations; and

(iv) the Group would be able to achieve a faster rate of expansion through acquisition of businesses with a good track record, with established customer bases and have non-residential properties under their portfolio, other than through organic expansion.

As disclosed in the Prospectus of the Company, the Company intended to use approximately 65.0% or HK$451.7 million, to expand the business scale and market share through multiple channels, among which, (i) approximately 60.0% or HK$417.0 million will be used to acquire or invest in other property management companies which are with geographical influence and similar market positioning to maximize potential synergies with the Group's existing business operations; and (ii) approximately 5.0% or HK$34.7 million will be used to actively identify opportunities to form joint ventures with local municipal investment companies in the cities where the Group operates, local property management service providers and/or local property developers, so as to obtain more projects for public facilities.

In addition to making reference to its industry comparable companies, the Board has also taken in account the following factors when considering the detailed basis of determination for the amount of the IPO proceeds originally allocated for the Expansion Plan:

(i) ***Views by industry consultant:*** The Company has engaged China Index Academy ("**CIA**"), the industry consultant to the Group in preparation of the Global Offering, and consulted their view on the overall property management industry in the PRC. According to the CIA, in 2020, the property management industry in the PRC was highly fragmented with significant potential for consolidation and there was a sufficient number of suitable target companies available in the market that meet the Company's criteria.

(ii) ***Availability of acquisition target:*** As advised by CIA, as of 31 December 2020, there were approximately 800 property management companies which met the Company's criteria of having GFA under management of at least 3.0 million sq.m. and annual revenue of at least RMB50.0 million for the most recent financial year.

(iii) ***Valuation of comparable companies:*** The Company has considered the price-to-earnings ratios and valuation of the comparable PRC property management companies which are listed on the Main Board of the Stock Exchange to estimate the expected monetary amount to be invested.

The Company has carried out the following works in determining the amount of IPO proceeds allocated for the Expansion Plan, based on the above:

Regarding the views by industry consultant:

(i) attended discussions with CIA to understand the reasons and justifications of their views as quoted in the industry report provided by CIA;

(ii) attended discussion with industry peers and attending industry conferences to understand the latest development in the industry;

Regarding the availability of acquisition target:

(iii) reached out to agents and obtained a list of suitable target companies available in the market that meet the Company's criteria;

(iv) conducted desktop search and other public searches to understand the corporate background and business activities of the potential acquisition targets;

Valuation of comparable companies:

(v) conducted desktop search and other public searches on other market comparables which are listed on the Main Board of the Stock Exchange.

Factors considered by the Board regarding the allocation of IPO proceeds

At the time of the Company's listing, the allocation of IPO proceeds for the Expansion Plan as disclosed in the Prospectus was determined with reference to, among other things:

(i) potential changes in government policies and regulations in the PRC which may affect the profitability of the Group, including the property developers seeking to increase their sales and completing their under construction projects to improve their liquidity positions as obtaining credit was becoming more difficult;

(ii) changes in the supply of and demand for property management services in the PRC, for example, which may result from changes in market sentiment;

(iii) the diversifying types of value-added and community value-added services that can be provided to property owners, in particular the advantages that specialty service companies would be able to provide and their potential contribution to the Group's growth;

(iv) the ongoing work of the Group's investment development department to develop relationships with to source potential acquisition projects to diversify the Group's client base, and the Group's market reputation as a quality property management service provider;

(v) the Directors' understanding of the available opportunities in the market prior to and/or at the time of the Company's listing; and

(vi) the pipeline of new properties that are to be developed, and consequentially the new property management companies that are expected to be established pursuant to the then forecast of the Company.

After due and careful consideration by the Board of the above factors, the Board considered that the allocation of IPO proceeds for the Expansion Plan as disclosed in the Prospectus was fair and reasonable and feasible.

As disclosed in the Prospectus, where the Group's acquisition plans cannot materialize, the Company might take steps to continue expanding its market share by obtaining engagements from new customers, and enhance the relationship with existing customers to obtain new engagements. The Group's investment in and loan to Hangzhou Kaichuan (which is involved in services for commercial properties) was conducted pursuant to such plan.

Key criteria for assessment of potential targets

As disclosed in the Prospectus of the Company, the key criteria for assessment of potential targets are:

(i) having a total annual operating revenue of over RMB50.0 million;

(ii) locating in the Yangtze River Delta Region and other economically developed regions in the PRC; and

(iii) having a property portfolio and management expertise that complement the Group.

Further, when evaluating whether a potential investment or acquisition target has a complementary property portfolio and management expertise, the Group would generally prefer those property management companies that have, among other things:

a) GFA under management of at least 3.0 million sq.m.;

b) annual revenue of at least RMB50.0 million for the most recent financial year;

c) diversified property portfolios including residential and non-residential properties, in particular where the target is specialized in providing property management services for non-residential properties, as the Company believes acquisition of target companies with such property portfolios would enable the Company to further diversify its existing property portfolio and implement a "Six-Three-One" property portfolio layout;

d) profitability that is comparable to the Company's projects with similar business scale;

e) a well-established presence in one or more of the top-tier cities in China that have great growth potential, which the Company believes would allow the Group to further expand its geographic coverage; and

f) reputable brand and good corporate creditworthiness.

Among the above factors, the Two Selection Criteria, i.e. having an annual operating revenue of over RMB50.0 million and in the Yangtze River Delta Region and other economically developed regions in the PRC are two crucial determining factors for the following reasons:

- financial performance: The Group believes that the purpose of using the net proceeds to implement its expansion plan is to allow the Group to quickly expand its business scale instead of greenfield investment by the Group itself, which carry with it risks of overcoming the local entry barriers, the Group spending time to get accustomed to local market practices and obtaining the requisite regulatory approvals, and also hiring locally to perform the property management services at the greenfield location. The Group can realize return from such potential investment quicker than greenfield investment as RMB50.0 million threshold ensures the stable operation and profitability of the potential acquisition target company, thus bring less risk from the acquisition activities for the Group. The Directors believe the annual operating revenue is one of the key attributes that indicates the historical financial performance, operating scale, maturity of operation, and the profitability of the potential acquisition target;

- background of the Group: The Group is a comprehensive property management service provider in Zhejiang Province and headquartered in Hangzhou; it has, through over 18 years of development, established an important market position in Zhejiang Province. Deeply rooted in the Yangtze River Delta Region, the Group's expansion within this region would more likely be able to guarantee its success in the acquisition strategy; on the other hand, acquisitions in other economically developed regions in the PRC would imply that these are major population centres with higher levels of per capita income, which would support the Group's strategy to expand its value-added services to non-property owners and community value-added services;

- geographical proximity with the Group to achieve synergy: The prime locations of targets located in the Yangtze River Delta Region can be expected to achieve better business synergy with the Group, with the Group's management would be able to exert closer supervision over due to their geographical proximity and allow the

Group to more proactively expand its business scale and market share. Leveraging the extensive experience and in-depth understanding of property management industry in Yangtze River Delta Region, the Group is confident that it would be able to control the overall operational risks. The Group can closely evaluate opportunities within the region with a view to maximising business opportunities while maintaining a reasonable balance of geographic coverage and level of profitability; and

- future growth and support from industry data: The Group believed that the Yangtze River Delta Region has prime growth potential when compared with the rest of the PRC. According to CIA, in 2020, the Top 100 Property Management Companies accounted for 19.4% of the GFA under management in the Yangtze River Delta Region in terms of geographical area, which was the highest in China's major metropolitan areas. Of the Top 100 property management service providers, 70 were headquartered in the Yangtze River Delta Region and 28 of them were headquartered in Zhejiang Province, which the Directors indicate that there is significant demand (and hence opportunities) for property management services.

At the time of the Company's listing, the Company has considered the above factors in determining the Two Selection Criteria for the Expansion Plan so as to continue the rapid growth trend during the track record period of the Company while at the same time managing risks associated with expansion of business into geographical regions that the Group may not be wholly familiar with.

Work performed by the Board to identify potential acquisition target(s) for the Expansion Plan

Subsequent to the Company's listing, the Board has performed the following work to identify potential acquisition targets for the Expansion Plan:

(i) performed legal due diligence on the potential acquisition targets to understand their group structure and if they were involved in any litigations and assess any potential risks to the Group;

(ii) engaged accountants to perform financial due diligence on the potential acquisition targets to understand their overall historical financial performance and potential impact on the financial performance the Group;

(iii) obtained and analysed the property portfolio undertaken by the potential acquisition targets and assess if their management expertise complement the Group's business strategies;

(iv) obtained and analysed the feasibility/valuation reports of the potential acquisition targets to assess the investment opportunities and risks relating to the potential acquisition targets;

(v) performed internal evaluation on the proposed investment and feasibility and assessed the benefits of acquiring such potential acquisition targets for the Group as a whole;

(vi) obtained and analysed information about potential acquisition targets from the industry players; and

(vii) set criteria for evaluating whether a potential investment or acquisition target has a complementary property portfolio and management expertise as the Group.

Since the Company's listing, the Group has completed one successful acquisition of a potential target, Hangzhou Kaichuan, on 7 April 2022 at a consideration of RMB5.88 million with a 39.2% minority interest. Hangzhou Kaichuan has been a customer of the Group since 2018. The Group believed its investment in Hangzhou Kaichuan was a valuable addition to the Company because considering the construction of a commercial property in Weinan City, Shaanxi Province by Hangzhou Kaichuan and the engagement of our Group's service for the provision of property management services at such property, the acquisition of Hangzhou Kaichuan helps to further solidify the business relationship between the Group, Hangzhou Kaichuan and its other shareholders. For further details on the reasons and benefits of this acquisition, please refer to the Company's announcement dated 11 October 2022.

In addition to the measures stated above, since the Company's listing, the executive directors held regular meetings with the investment development department of the Group to identify and to assess the benefit of acquiring those potential acquisition targets.

Implementation of the Expansion Plan

Usually after identification of the potential acquisition target, the project teams will conduct further feasibility studies, including financial and legal aspects of those targets. If the feasibility studies indicate a tangible benefit to the future development of the Group, the project teams will approach the senior management of the Group and the Directors for further discussion on the implementation of the potential acquisitions. Even without any potential acquisition targets being identified by the project teams, the senior management of the Group will nevertheless discuss with the investment development department from time to time and to brainstorm any other potential acquisition targets so as to ensure the Expansion Plan can be implemented according to the plan in the Prospectus.

After considering the projects available in the market and in line with the Group's business prospects, the Board and/or senior management of the Group concluded that save for Hangzhou Kaichuan, there were no viable or profitable projects that the Group could participate in, taking into account the cooperation levels of the potential acquisition targets, risks associated and the potential benefits that the Group may derive from the acquisition targets.

Changes in circumstances post-listing and continual impact of COVID-19

In view of the change in circumstances post-listing and the continual impact of COVID-19 which were not foreseeable at the time of the Company's formulation of the Expansion Plan and preparation of the Prospectus, the Board had decided to change the use of IPO Proceeds. The Board believes that, after the Company's listing in July 2021, factors including the lagging impact of the "Three Red Lines" (三條紅線) on the financial conditions of property developers in the second-half of 2021, the media's reporting of the financial difficulties faced by major property developers and the resulting lack of confidence on retail home buyers in the PRC to purchase residential properties, coupled with the resurgences of COVID-19 outbreak in March 2022, and the slowdown of the PRC's economy generally, when combined together had cast significant uncertainties relating to the PRC property development and management industry as a whole, which have led to the Company's delay to fully implement the Expansion Plan.

In addition, resurgences of COVID-19 outbreak in multiple cities in the PRC during the first four months of 2022 lead to the re-imposition of quarantine and restrictive measures by the local governments, including the lockdown of major cities which affected the Group's business operation and the market sentiment. In view of the outbreak of COVID-19, the Group suspended its business operations for approximately three months from March 2022 to May 2022. The senior managers of the Group working under the investment development department were restricted from travelling domestically in search of potential acquisition targets, there was unwillingness of potential acquisition targets to meet with the Group, and there were not many residential or commercial property projects being completed due to stoppage of construction works during the lock-down period.

The annual completion gross floor area residential properties (i) prior to the promulgation of the "Three Red Lines" measures was approximately 2.1 billion sq.m. in 2019 and approximately 2.35 billion sq.m. in 2020 as compared to after such promulgation which was approximately 1.77 billion sq.m. in 2021; and (ii) the annual commercial housing sales area before the lock-down in Shanghai due to COVID-19 during March to May 2022 experienced a 13.8% year-on-year decrease as compared to after such lock-down which experienced a 23.3% year-on-year decrease.

As disclosed in the Prospectus of the Company, given that the Group's business is headquartered in Hangzhou, and rooted in the Yangtze River Delta Region, the Company intends to continue to continue to solidify our market position in Zhejiang Province and vigorously increase its market share in the Yangtze River Delta Region and other economically developed regions in the PRC. Two of the key criteria for assessment of potential targets, among other things, include (i) having a total annual operating revenue of over RMB50.0 million; and (ii) locating in the Yangtze River Delta Region and other economically developed regions in the PRC. Hence, the lock-down in Shanghai in 2022 caused a material impact on the Group's business.

The changes in circumstances as caused by the delayed effect of the "Three Red Lines" on the significantly slower pace of construction of major property developers in the PRC, availability of credit and working capital available to property developers in general, the and the resurgences of COVID-19 in the PRC were not foreseeable at the time of the Company's formulation of the Expansion Plan and preparation of the Prospectus as:

(i) the lagging effect after the promulgation of the "Three Red Lines" on the debt position of property development companies in the PRC, and the financial difficulties faced by major property developers in the PRC, which began to surface during the third to fourth quarter of 2022; and

(ii) there was a gradual control of COVID-19 with mild effects on the economy of the PRC during the second half of 2020 and the first quarter of 2021, which was during the time of the Company's preparation of the Prospectus as compared with the more stringent controls to prevent the spread of COVID-19 in the second half of 2021 and throughout 2022.

Reason for the Reallocation

The Board believes the unutilised portion of the Net Proceeds should be used to generate stable income for the Group in the short term, for example generating interest payments from the provision of the Loan, as:

(i) the property development market in the PRC may require more than one year to revive after the downward trend during 2022, the gradual relaxation of the credit environment for property developers, and the lifting of the COVID-19 restrictions at the end of 2022;

(ii) reducing the risks associated with potential acquisitions or investments by the Group as the general economic environment and business stoppages in the PRC during 2022 resulting from COVID-19 resurgences were only relaxed towards the end of 2022; and

(iii) the need to allow sufficient time for more potential acquisition targets to grow and for the investment development department to observe their post-pandemic property management services track record prior to the Group would commence approaching the targets for discussion.

Therefore, the term of the Loan being two years is considered by the Board to be the optimal period for the repayment of the Loan to be reallocated back to the Expansion Plan.

The Board also believes the interests gained from the provision of the Loan would be higher than holding idle cash as deposits in banks or other financial institutions.

Based on the above, the Board believes the Expansion Plan could be carried out using the funds from the repayment of the Loan from the Borrower after two years.

Board's assessment on the Reallocation

After due and careful consideration by the Board of (i) the matters set out above; (ii) the basis of the valuation of the Charged Assets being nearly twice the principal amount under the Loan; (iii) the credit risk assessment of the Borrower by the Group set out below; and (iv) the 8% interest rate being a fair and reasonable term of the Loan as further elaborated below, the Board believes that the Reallocation of unutilised IPO proceeds which was originally allocated for the expansion of the Company's business scale and increase market share through multiple channels as Loan is fair and reasonable and in the best interest of the Company and its shareholders as a whole.

Relationship between the Company and the Borrower

Background of the Borrower

Hangzhou Ruiyang is a company established under the laws of the PRC with limited liability. It is principally engaged in supply chain management, and it is held as to 95% by Deqing Kaisheng Enterprise Management Co., Ltd.* (德清凱昇企業管理有限公司) and 5% by Wei Qiang (魏強); Deqing Kaisheng Enterprise Management Co., Ltd. is 100% held by Lai Haiping (賴海萍).

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, Wei Qiang (魏強), Lai Haiping (賴海萍) are third parties independent of the Company and its connected persons.

The Company became acquainted with Hangzhou Ruiyang starting from August 2021, when the Company entered into a strategic cooperation agreement with it.

Based on the public information, Hangzhou Ruiyang is also a supplier of Dexin China, which is a company controlled by the controlling shareholder of the Company, and an independent third party of Dexin China. Further, based on the announcement of Dexin China dated 18 April 2022, Hangzhou Ruiyang entered into a guarantee agreement with Hangzhou Kaiqing Enterprise Management Co., Ltd. (杭州凱箐企業管理有限公司) on 30 November 2021 pursuant to which, Hangzhou Kaiqing shall provide a guarantee for the amount of RMB550 million borrowed by Hangzhou Ruiyang from Ping An Bank Co., Ltd. Hangzhou Branch (平安銀行股份有限公司杭州分行), and receive 3% guarantee fee per year from Hangzhou Ruiyang.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, save as disclosed above, Hangzhou Ruiyang does not have any other relationship with the Company, its connected persons (other than as an independent third party supplier of Dexin China) and their respective associates apart from Hangzhou Ruiyang being a business partner of the Company, and that it has invested in a fund that is a shareholder of the Company (but which does not constitute a substantial shareholder under the Listing Rules) as a limited partner as of the date of the Announcement.

Business relationship between the Borrower, the Company, the Company's controlling shareholders, and Dexin China

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Borrower is:

(i) a supplier of electric household products and furniture for Dexin China since September 2019; and

(ii) a business partner pursuant to which a Strategic Cooperation Agreement was entered into on 10 August 2021 with Hangzhou Junde Commercial Operations Management Co., Ltd.* (杭州駿德商業運營管理有限公司) ("**Hangzhou Junde**", a wholly-owned subsidiary of the Company) for the procurement of electric household goods, furniture and lightning goods within Zhejiang province by Hangzhou Junde from the Borrower. Details of which are stated below.

Other than the above two business transactions, the Company is not aware that there are any other business transactions conducted between the Borrower and the Company, the Company's controlling shareholders and Dexin China.

Details of the Strategic Cooperation Agreement

The Strategic Cooperation Agreement was entered into between the Borrower and Hangzhou Junde (a wholly-owned subsidiary of the Company) on 10 August 2021 for the provision of electric household goods, furniture and lightning goods by the Borrower to Hangzhou Junde within Zhejiang Province for a period of three years from 10 August 2021 to 9 August 2024. Through entering into Strategic Cooperation Agreement, it was the intention for both parties to establish a mutually beneficial and long-term relationship, deepen their corporation terms, share business resources to foster better customers and suppliers relations, diversify customers and suppliers reach and cross-promote their services which would be beneficial to both parties.

During the cooperation period, the Borrower will introduce suitable customers and provide appropriate resources to Hangzhou Junde in order to promote business development between the two parties. This agreement will be terminated unilaterally by Hangzhou Junde if the Borrower fails to deliver any purchased goods on the specified date for more than 15 days and the Borrower is required to repay the payment already received plus 20% of the total contractual amount as liquidated damages to Hangzhou Junde. If this agreement cannot be performed due to the fault of either party, the other party has the right to terminate the agreement and demand for damages from the other party.

Pursuant to the Strategic Cooperation Agreement, the actual consideration for each purchase shall be confirmed based on the purchase order, delivery receipt and acceptance receipt. A separate business development agreement will also be entered into subsequently by the Borrower and Hangzhou Junde which specifies the actual business development arrangement between the parties.

As at the date of this announcement, no goods have been procured and/or delivered pursuant to the Strategic Cooperation Agreement because no an actual business development agreement or purchase order has been signed or placed.

Reasons and benefits of the provision of the Loan

The primary consideration relating to the extension of the Loan was the interest income that the Group can derive, and also the value of the Charged Assets securing the repayment of the Loan by Hangzhou Kaichuan. Also, the Board believes with the provision of the Loan, goodwill can be established between the Group and the Borrower. It is expected that with the previously existing cooperation together with the financial relationship between the Group and the Borrower, the Group will be able to identify more potential customers, and efficiently allocate and match resources to better serve its existing or new customers.

Credit risk assessment on the Borrower

In deciding to provide the Loan, the Board has conducted credit risk assessment on the Borrower by:

Concerning the legal aspects of the Borrower

(a) performing legal due diligence on the potential acquisition targets to understand if they were involved in any litigations and assess any potential risks to the Group;

(b) reviewing from public data sources such as Qichacha, Baidu and Creditchina and no negative result was noted;

(c) conducting due diligence exercise on the financial and corporate background of the Borrower and its shareholders;

(d) engaging a third party search agent to conduct a litigation search against the Borrower, and upon the review of the search reports, without any material litigations or monetary claims against the Borrower noted;

(e) reviewing publicly available information and noted that the Borrower has no material litigation relating to it, and therefore nothing had come to the Directors' attention that there are issues relating to the Borrower's liquidity position and its ability to repay the Loan and the interests thereunder;

Concerning the financial aspects of the Borrower

(f) engaging accountants to perform financial due diligence on the potential acquisition targets to understand their overall historical financial performance and potential impact on the financial performance the Group;

(g) reviewing the financial statements and management accounts of the Borrower. According to the financial statements of the Borrower, the unaudited revenue of the Borrower was RMB754 million and the profit attributable to owners of the company for the period ended 30 November 2022 amounted to RMB145 million;

(h) engaging an accounting firm to conduct financial due diligence on the Borrower, including considering the justifiableness of the valuation of the Charged Assets;

Concerning the existence and valuation of the Charged Assets

(i) obtaining information on the Charged Assets from the Borrower, performing site visits to the location of the Charged Assets, reviewing relevant title documents evidencing the legal owners of the Charged Assets as being the Borrower, and engaging the Property Valuer to perform an independent valuation on the Charged Assets; and

(j) considering that the value of the Charged Assets is nearly twice the principal amount under the Loan, in the worst case scenario, even if the Borrower defaults on the Loan, realisation of the Charged Assets by the Company would be more than sufficient for covering the default amount of the Loan and costs associated with recovery of the amount due from the Borrower.

Based on the above, the Board concluded that the credit risk of the Borrower is low and manageable, and that the Borrower has sound creditworthiness as at the date of the Announcement.

Board's assessment on the sufficiency of the credit risk assessment

The Board is of the view, after taking into account the relevant financial due diligence work on the Borrower, the engagement of the Property Valuer for the appraisal of the Charged Assets, and market and industry research conducted by the Company, the credit risk assessment work performed on the Borrower was sufficient. Among other things, the Loan is being secured by the Charged Asset with an appraised market value of RMB630 million, which is nearly twice the principal amount under the Loan.

Measures taken by the Company to mitigate the credit risk

The Company ensured that the Loan is being secured by the Charged Asset with an appraised market value of RMB630 million, which is nearly twice the principal amount under the Loan in order to mitigate the credit risk from the provision of the Loan to the Borrower.

Board's consideration on the sufficiency of the provision of the Charged Assets

After taking into account the Loan is being secured by the Charged Asset with an appraised market value of nearly twice the principal amount under the Loan, the Board is of the view that the provision of the Charged Assets by the Borrower is sufficient to mitigate the credit risk from the provision of the Loan to the Borrower.

Basis of determination of the 8% interest rate per annum

The interest rate of 8% per annum was determined after arm's length negotiations between the Lender and the Borrower with reference to:

(i) the interest rate range for the central bank's five year loan in the PRC market ranging from 4% to 5% per annum;

(ii) the interest rate range for the major commercial banks' two year deposit rate in the PRC market ranging from 2% to 3% per annum; and

(iii) the interest rate range for loans of similar scale which are granted by comparable listed companies in Hong Kong ranging from 7% to 8% per annum.

In view of the above, the Board considers that the interest rate of the Loan of 8% per annum is fair and reasonable and on normal commercial terms, which is consistent with market practice and favourable to the Group.

Sufficiency of working capital after provision of the Loan

The portion of the Net Proceeds allocated to the Loans of HK$342.9 million was originally planned to expand the Company's business scale and increase market share through multiple channels, including (i) acquisition or investment in other property management companies; and (ii) forming joint ventures to obtain more projects for public facilities, as disclosed in the Prospectus. They are of capital expenditure nature and are not intended to be used as the Group's general working capital.

To further demonstrate that the Group has a strong working capital position, the Company had cash flow generated from operating activities of RMB3.1 million for the year ended 31 December 2021 and cash flow used in operating activities of RMB41.6 million for the six months ended 30 June 2022, respectively. Taking into consideration the net cash and cash equivalents balance (total cash and cash equivalents balance of RMB826.6 million less the Net Proceeds re-allocated of HK$342.9 million) of RMB533.4 million as of 30 June 2022, the Company is of the view that it has sufficient working capital to support its operation.

In order to monitor the working capital sufficiency of the Company, the chief financial officer of the Group and the finance department will study the existing service contracts that the Group has in place and the cash flow demands resulting from the Group's existing obligations, estimate the sufficiency of its operating cashflows and monitor working capital inflow and outflow on a regular basis. In addition, monthly management accounts and operating metrics are also prepared and reported to the Board on a monthly basis.

The above additional information does not affect other information contained in the Announcement. The Board will continue to evaluate the trends of the property management industry with the global and local economic conditions from time to time to determine the most effective and efficient use of the Net Proceeds.

By order of the Board of
Dexin Services Group Limited
Hu Yiping
Chairman

Hangzhou, the PRC, 22 March 2023

As of the date of this announcement, the Board comprises Mr. Hu Yiping, Mr. Tang Junjie and Ms. Zhu Xiaoli as executive Directors; and Mr. Jia Shenghua, Mr. Rui Meng and Mr. Yang Xi as independent non-executive Directors.